



Prudency of PowerEx Winter PPAs (Docket UE-230313)

Prepared for the WUTC (Includes Confidential Material)

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PSE procured [REDACTED] PPAs from PowerEx at [REDACTED].¹ These address a short-term capacity deficit, but the vast majority of the bid price was informed by [REDACTED].

In my review of the PPAs, I confirmed the market data used by PSE to determine its bid price.³ I also consider PSE's opinion that there are limited opportunities to acquire firm capacity resources to be reasonable.⁴

There appear to be three issues that have or could have been raised with respect to the prudency of the PowerEx Winter PPAs. Because Mr. Earle's declaration redacts one of his arguments in its entirety, but PSE's response is not marked confidential, and given the one-day turnaround requested by the Commission for this submission, I will not summarize Mr. Earle's declaration on each point. Instead, I will approach these issues as I did in providing the WUTC Staff with my advice on this topic.

1. Need for capacity

PSE's procurement was based on its need for capacity during the term of the PPAs.⁵ This capacity need appears to be driven by a reassessment of the reliability of "the company's 1,500 MW of Mid-C transmission capacity and market purchases as equivalent generation capacity," because:

Shifts in western energy markets to retire baseload capacity and replace it with intermittent resources has dramatically increased the risks of system reliability and customer exposure to scarcity pricing. These risks are accentuated with the absence of a comprehensive summer resource adequacy planning standard that would otherwise identify a capacity need when the regional market demand is highest. While the 2021 IRP addresses the need to update these planning assumptions and reduce market reliance (MR), more expeditious action is required to address customer exposure to these risks as the generation portfolio is stressed by more frequent and extreme weather events driven by climate change.⁶

While the presentation submitted as Exh. PAH-6 is primarily focused on a summer capacity need, it does include evidence relating to the winter capacity need. In my review of the need for capacity, I assumed

¹ Exh. PAH-1CT at 8:1-5.

² Exh. PAH-1CT at 7:10-15; Exh. PAH-5C.

³ PSE response to PC DR-had 007, Attach A.

⁴ Exh. PAH-1T at 11:7-8.

⁵ Exh. PAH-1T at 12:13-16.

⁶ Exh. PAH-6 at 2.

that the Commission had reviewed this issue in the 2021 IRP as referenced in PSE's exhibit. However, I did not confirm this point independently.

Accordingly, if the Commission is not satisfied that PSE has established a short-term capacity need, then it would be reasonable for the Commission to require PSE to file further evidence supporting this claim.

2. Evaluation of alternatives

While it is best practice for utilities to procure resources through an all-source procurement or a targeted procurement, such procurements typically take a year. In the PowerEx circumstances, PowerEx did not choose to sell its resources by participating in utility RFPs, but instead to offer sale of the resource in its own RFP. In this context, it was reasonable for PSE to evaluate the PowerEx opportunity in comparison to alternatives that it knew to be available or believed reasonably represented the cost of potentially available resources.

As a matter of determining that a utility action is prudent, the reasonableness standard does not require that the utility prove that it made a perfect choice given information available today. It only has to show that its application of information that it had, or should have had, was reasonable. After reviewing Exh. PAH-5, I did not find any reason to contest the reasonableness of the Company's identification of or evaluation of alternatives.

3. Consistency with PSE hedging policies

Another way to view the PowerEx PPAs is as a physical energy hedge. By entering into these PPAs, PSE locked in a significant amount of power delivery at a known price that it viewed to be consistent with market prices. Other than the capacity value of the PPAs, the remaining benefits considered by PSE are all market-based values that I confirmed, as noted above.

In Exh. PAH-1T, Mr. Haines testifies that, "On October 28, 2021, the EMC authorized PSE to acquire [REDACTED] MW of new capacity as part of a near-term market reliance risk reduction strategy. PSE's October 28, 2021 presentation to the EMC describes this strategy and the capacity deficit and associated risks it addresses."⁷ Disregarding the capacity need and cost, the remainder of the transaction appears to have been carried out in a manner consistent with PSE's *Energy Risk Policy* and its *Energy Supply Transaction and Hedging Procedures Manual*.⁸

Accordingly, even if the Commission determines that PSE did not establish a capacity need, it appears that the remainder of the PowerEx cost was incurred in a manner consistent with PSE's existing practices, and I do not see a reason for the Commission to find that purchase imprudent.

That said, if the PowerEx PPAs are viewed as physical energy hedge purchases, then the size of this single purchase does raise significant questions about PSE's hedging policies. With EMC approval, PSE's policies do not appear to include an upper limit on how much of its forecast energy requirements may be purchased in a single transaction or during a specific period of time.

⁷ Exh. PAH-1T at 12:3-6.

⁸ PSE response to WUTC DR-8, Attach. A and Attach. B.

For example, some other utility hedging practices I am familiar with set a target range for each six-month period. A utility might target hedging 50-70% of its forecast energy requirements 12-18 months out.

PSE's policies appear to set a minimum physical hedge requirement for relatively short-term periods, but does not set any cap on physical hedges nor any requirement that those hedges be purchased at significant intervals. This exposes PSE customers to the risk that contracts similar to the PowerEx PPAs may be entered into at a time when market prices are at a peak, with little remaining opportunity to average that cost over multiple transactions.